

CONFIDENTIAL

Philip Morris USA — Submission to Corporate Products
Committee

Monthly Meeting: September 1994

Product Information

Brand Name: Dave's
Action Date: November 1994/January 1995

- (X) Test Market — - Denver, Colorado (Nov 1994)
- (X) Test Market — Seattle, Washington (Jan 1995)

Packaging (as per samples submitted)

Pricing Strategy Branded Discount (Basic)

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The discount category currently represents 31.2% (August Nielsen) of the US cigarette market, down 6.5 share points since March 1993 when it attained its record high share of 37.7%. While this decline in discount has had a positive impact on PM USA premium brands, particularly Marlboro, the discount category continues to represent significant volume. Unfortunately, while PM USA has significantly increased its premium volume and market share, it has not maintained its share within the discount category. On a national level, PM remains the number two company in the segment (27.2 soc) far behind the leader RJR(37.5), with B&W (19.9) growing in third.

PM USA maintains a strategy that gradually shifts volume from commodity priced private labels into equity based, branded discount trademarks with greater margins. During the past year, this strategy enabled Basic to grow to a 4.5 share of market, or approximately 14.4 share of the discount category. However, with the recent growth in B&W's GPC and simultaneous decline in PM's Cambridge, Alpine, Bristol, Bucks and private labels, PM USA has lost approximately 2.0 discount category share points since July 1993. On a national level PM now has 27.2 share of Discount. Share of discount category varies by geography with a low of 18.4 in the Western Region(5) to a high of 35.0 in the Midwest region(4).

Dave's Brand was developed to enable PM USA to halt/reverse its share erosion within the discount category and round out its geographically skewed discount portfolio. This will reduce PM's vulnerability to Basic's isolated strongholds and continue to shift volume from private labels into equity based trademarks. Dave's will also be used to limit penetration of the young adult male smoker (YAMS) by Camel and slow GPC's attainment of critical mass / brand legitimacy among those YAMS who smoke discount. Finally, in a post FET environment, Dave's can act as a "safety net" to retain within the PM portfolio, those Marlboro and other PM premium brand smokers (21-34) who out switch to discount products.

Dave's is priced at the branded discount level (Basic), it will not be priced reduced at retail or couponed. Currently all PM discount brands maintain a similar pricing strategy. However, the only brand/trademark with "real" equity is Basic. Dave's is more of a "brand" than other discount products. It delivers perceived value to the smoker without using a lowest price position. It is positioned as a better quality discount cigarette with strong imagery for current or occasional discount smokers.

Prior to developing Dave's, significant qualitative research was conducted among young adult male smokers. The objective was to learn about their perceptions of the discount category and to identify a relevant positioning for a new discount brand. These smokers indicated that most discount cigarettes are not seen as "real" brands and therefore do not elicit similar emotional bonds and loyalties found among premium brand smokers. They buy discount brands out of financial desperation, not by choice. It is from this input that Dave's was created: a grassroots, unconventional, "real" brand that makes an emotional connection with the smoker. The product is positioned as though it is produced by an honest individual who smokers admire and trust to make a good discount cigarette. It is not presented as a product from PM, rather it is from Dave's Tobacco Company. The brand recognizes smokers past negative experiences with discount products and turns them into positive product attributes that help differentiate Dave's from others.

Quantitative research was conducted among a national sample of more than 2000 young adult male smokers; most reacted favorably to the concept. Quantitative package, name, concept and advertising tests indicate high levels of purchase intent after trial, with the greatest appeal among discount smokers and Camel smokers. The percentage of total smokers indicating they "definitely would buy" the brand was equally as high as any

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brand PM USA has tested. Smokers liked the taste very much, particularly users of Camel. On a quality spectrum, Dave's is perceived as between Winston and Camel and significantly higher than other discount brands. It is also perceived as a better value than both Winston, Camel and other discount brands.

Dave's will initially be available in Full Flavor and Lights non-menthol box packings. Full flavor and Lights packings represent 80% of the products smoked by young adult male smokers. The blend is the PM discount blend (Brica) with a unique aftercut (flavoring) targeted to be similar to Camel. The product is designed to address smokers negative perceptions of discount products, such as loosely packed tobacco. Therefore, Dave's is a slightly firmer cigarette than Basic and far firmer than competitive discount products. This firmness is achieved by slightly increasing the tobacco weight.

Dave's is scheduled to go into test market in the Denver, Colorado market on October 31, 1994. Current plans include adding a second test market in Seattle, Washington on January 2, 1995. The objective of the test market is to evaluate the business potential of Dave's. The test markets are scheduled to last for a minimum of six months. Expansion into other geographies will be considered and evaluated on an on-going basis depending upon the dynamics of the discount category, Dave's share achievements and cannibalization to current PM brands. Currently there are no expansion plans, this is only a test market proposition.

Dave's will be launched with fully integrated introductory marketing and sales plans. Traditional levels of introductory advertising will support the brand in print and out of home during the test. At retail the brand will be supported with highly visible point of sale materials and two consecutive monthly trial oriented product promotions. A two pack incentive promotion will generate further trial and support the brands image during month 5. An offensive direct mail program targeted to all competitive discount and premium smokers (21-34) will begin during month 1 of the launch. The objective is to introduce the brand to smokers and generate trial via multi-pack coupons. Two additional mailings will follow during the test to continue generating trial and conversion. The introductory sales plan is designed to ensure rapid acceptance and distribution at wholesale and includes a unique product based retailer reward program for keeping the brand merchandised correctly. These programs were created by a joint marketing/sales team including Field management to guarantee maximum effectiveness.

Attached are charts highlighting Dave's product specifications and comparisons with other products, as well as, research results indicating purchase intent after trial and perception of value and quality.

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